

**Washington State Auditor's Office**  
**Audit Report**

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**Housing Authority of the  
City of Bremerton  
Kitsap County**

Audit Period  
October 1, 1996 through September 30, 1997

**Report No. 59077**

Issue Date  
**June 5, 1998**



Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag

# Audit Summary

## **Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997**

### ***ABOUT THE AUDIT***

This report contains the results of our annual independent audit of the Housing Authority of the City of Bremerton for the period October 1, 1996, through September 30, 1997.

Our work focused on determining whether the Housing Authority complied with state laws and regulations and federal grant requirements. It included an audit of the financial statements and the internal controls established by Housing Authority management. We also performed audit procedures on specific areas that have potential for abuse and misuse of public resources.

### ***RESULTS***

In the areas we examined, the Housing Authority of the City of Bremerton complied with state laws and regulations and its own policies. In addition, the Housing Authority adhered to requirements of federal financial assistance.

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# Description of the Housing Authority

## Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997

### ***DESCRIPTION OF THE HOUSING AUTHORITY***

The Housing Authority of the City of Bremerton was organized on January 19, 1939. The Housing Authority is funded by the U.S. Department of Housing and Urban Development (HUD) to provide housing for low- and very-low-income families.

The Housing Authority operates 2,186 units under the Section 8 Voucher and Certificate Programs, two public housing projects (Westpark and Tara Heights), and one Section 8 New Construction project (The Firs). Periodically, the Housing Authority undertakes modernization projects.

The Housing Authority has five commissioners who are appointed to five-year terms by the Mayor of the City of Bremerton. The Housing Authority has 57 employees.

### ***ELECTED OFFICIALS***

The following officials served during the audit period:

Board of Commissioners:

Carl F. Buettgenbach  
Robert D. Kennedy  
Arthur N. Morken, Jr.  
Thomas C. Rosebraugh  
Julie Evalt Adams

### ***APPOINTED***

Executive Director

Merrill Wallace, II

### ***MAILING ADDRESS***

Housing Authority

110 Russell Road  
PO Box 631  
Bremerton WA 98312

# Audit Areas Examined

## Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997

In keeping with general auditing practices, we do not examine every portion of an entity's financial activity during each audit. The areas examined during an audit are determined by evaluating those which have the highest risk of loss to the entity as well as other factors. Certain areas are reviewed on a rotating basis over the course of several years. The following represents the areas of Housing Authority operations examined in this audit period:

### **LEGAL COMPLIANCE**

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Cash receipts
- Conflict of interest
- Open public meetings
- Payroll
- Interfund transactions

### **INTERNAL CONTROL CATEGORIES**

We examined the following categories of the Housing Authority's internal control structure:

- Cash receipting
- Billings and receivables
- Disbursements
- Accounts payable
- Property and equipment
- Payroll

### **FEDERAL PROGRAMS**

The audit of the federal grants adhered to the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement*. We audited the Housing Authority's compliance with the following requirements of federally-funded programs:

- Eligibility
- Occupancy
- Reporting
- Section 8 Rental Assistance

## ***FINANCIAL AREAS***

In addition to the testing listed above, the following areas were tested in auditing the financial statements:

- Overall presentation of financial statements
- Cash and investments
- Property, plant and equipment

# Audit Overview

**Housing Authority of the City of Bremerton  
Kitsap County  
October 1, 1996 through September 30, 1997**

## ***AUDIT HISTORY***

We audit the Housing Authority of the City of Bremerton annually. In the past 10 audits, only one finding was reported. That was in 1994. Housing Authority officials have taken steps in the past to make improvements and to correct the area of concern noted in that finding. The Accounting and Finance Department has shown a strong desire and commitment to develop improved internal controls.

## ***CONCLUSIONS***

In the areas we examined, we found the Housing Authority of the City of Bremerton complied with state laws and regulations, its own policies and requirements of federal financial assistance. We also found the Housing Authority's financial statements were materially correct.

During the audit, we spent a considerable amount of time looking at tenant files to determine if the Housing Authority was in compliance with HUD requirements. The major requirements are to conduct annual verifications of income and compute HAP and utility payments; certify rent reasonableness; conduct annual, initial and final inspections of units; sign HAP contracts with an owner; and maintain copies of the tenants' leases. The Housing Authority appears to be in compliance with these requirements.

# Federal Summary

## **Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997**

The results of our audit of the Housing Authority of the City of Bremerton are summarized below in accordance with OMB Circular A-133.

- We issued an unqualified opinion on the Housing Authority's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Housing Authority.
- We issued an unqualified opinion on the Housing Authority's compliance with requirements applicable to its major federal programs.
- We reported no findings which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The Housing Authority qualified as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

<u>CFDA Number</u>	<u>Program Title</u>
14.857	Section 8 - Certificates



# Independent Auditor's Report On Compliance And Internal Control Over Financial Reporting In Accordance With *Government Auditing Standards*

## **Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997**

Chairperson of the Board of Commissioners  
Housing Authority of the City of Bremerton  
Bremerton, Washington

We have audited the financial statements, as listed in the table of contents, of the Housing Authority of the City of Bremerton, Kitsap County, Washington, as of and for the year ended September 30, 1997, and have issued our report thereon dated March 23, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***COMPLIANCE***

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of material misstatements, we performed tests of Housing Authority's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional test of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the Housing Authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the Housing Authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the Housing Authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

### ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the Housing Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Commissioners, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

March 23, 1998

# Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

**Housing Authority of the City of Bremerton  
Kitsap County  
October 1, 1996 through September 30, 1997**

Chairperson of the Board of Commissioners  
Housing Authority of the City of Bremerton  
Bremerton, Washington

## **COMPLIANCE**

We have audited the compliance of the Housing Authority of the City of Bremerton, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 1997. The Housing Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on the Housing Authority's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority's compliance with those requirements.

In our opinion, the Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 1997.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Commissioners, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

March 23, 1998

# Independent Auditor's Report On Financial Statements Of HUD Supported Programs and Supplemental Information Required By HUD

## **Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997**

Chairperson of the Board of Commissioners  
Housing Authority of the City of Bremerton  
Bremerton, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD) of the Housing Authority of the City of Bremerton, Kitsap County, Washington, as of and for the year ended September 30, 1997. These financial statements are the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the HUD supported programs of the Housing Authority and are not intended to present fairly the financial position and results of operations of the Housing Authority of the City of Bremerton, taken as a whole, in conformity with generally accepted accounting principles.

The Housing Authority's policy is to prepare its Public Housing Agency Owned Housing Fund, the Section 8 Existing Programs Fund, the Section 8 SRO Certificates Fund, and the Housing Voucher Programs Fund financial statements on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD differ from generally accepted accounting principles. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD supported programs of the Housing Authority of the City of Bremerton as of September 30, 1997, or the results of its operations for the year then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the financial positions of the HUD supported programs of the Housing Authority of the City of Bremerton as of September 30, 1997, and the results of its operations for the year then ended, in conformity with the prescribed basis of accounting.

In our opinion, the Local Fund and The Firs Fund present fairly, in all material respects, the financial position of the Housing Authority of the City of Bremerton at September 30, 1997, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 1998, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Actual Modernization/Development Cost Certificates for Projects WA19P003702-93 is supplemental information required by HUD. This schedule is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the respective HUD supported programs and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements of such programs taken as a whole, on the basis of accounting practices prescribed or permitted by HUD.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

March 23, 1998

# Financial Statements

## Housing Authority of the City of Bremerton Kitsap County October 1, 1996 through September 30, 1997

### ***Financial Statements***

#### Public Housing

Balance Sheet - 1997

Statement of Income and Expense and Changes in Accumulated Surplus or Deficit from  
Operations - 1997

Statement of Operating Receipts and Expenditures - 1997

#### Section 8 Existing Certificate Programs

Balance Sheet - 1997

Voucher for Payment of Annual Contributions and Operating Statement- 1997

#### Section 8 SRO Certificate Program

Balance Sheet - 1997

Voucher for Payment of Annual Contributions and Operating Statement- 1997

#### Housing Voucher Programs

Balance Sheet - 1997

Voucher for Payment of Annual Contributions and Operating Statement- 1997

#### Local Fund

Balance Sheet - 1997

Statement of Income and Retained Earnings - 1997

Statement of Cash Flows - 1997

#### The Firs

Balance Sheet - 1997

Statement of Profit and Loss - 1997

Statement of Cash Flows - 1997

Notes to Financial Statements - 1997

### ***Additional Information***

Actual Modernization Cost Certificate

Annual Statement/Performance and Evaluation Report - Comprehensive Grant Program

Schedule of Federal Financial Assistance - 1997